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TO RUEHC/SECSTATE WASHDC IMMEDIATE 6213  
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE PRIORITY  
RUEAIIA/CIA WASHINGTON DC PRIORITY  
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC PRIORITY  
RUEAWJA/DEPT OF JUSTICE WASHINGTON DC PRIORITY  
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RHEHAAA/NATIONAL SECURITY COUNCIL WASHINGTON DC PRIORITY

C O N F I D E N T I A L SOFIA 000416

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E.O. 12958:DECL: 07/29/2019  
TAGS: [PGOVECONPRELBU](#)  
SUBJECT: BULGARIA: NEW PM DOWNBEAT ON ECONOMY

Classified by: CDA Susan Sutton for reasons 1.4 (b) and (d).

1.(C) In a brief farewell call on new Prime Minister Boyko Borissov July 29, Ambassador McElDowney delivered President Obama's letter of congratulations and promised U.S. support and assistance to the new government. Borissov gave a somber assessment of Bulgaria's economy, saying his Finance Minister had just announced that the government had inherited an 11 percent budget deficit from the outgoing administration. To complicate matters, the European Anti-fraud Office (OLAF) is seeking the immediate return of an additional 65 million euros in EU funds due to irregularities and misuse. Borissov said unemployment was on the rise as Bulgarians who had been working in Spain, Italy and other European countries were streaming back in search of employment. The tasks ahead of him, he said, seemed daunting.

2.(C) The Ambassador acknowledged the pain that will come from the needed budget cuts, but urged the PM to use the opportunity to take the comprehensive steps needed to overhaul the economy so that it emerges from the financial crisis stronger and more competitive. Among the steps required are improving the investment climate by offering creative incentive packages to foreign investors, solving investment disputes left over from the last government and strengthening IPR protections.

3.(C) Comment: Borissov and his GERB party swept into power July 5 on an anti-corruption platform. Borissov has placed trusted confidants and reform-minded professionals in ministries that must deliver on GERB's rule of law promises. But as much as he would like to focus on fighting organized crime and ridding Bulgaria of its "bad boy" image, it is the economy that will require more of the PM's effort and attention. New Deputy Prime Minister and Minister of Finance Simeon Dyankov must find USD 1.9 billion in immediate budget cuts to end the year with a balance budget, a critical step for a country where investor and public confidence has depended on the government's fiscal responsibility. The needed cuts will not only be painful -- they may also be an obstacle to GERB's reform agenda.

SUTTON